

**NORTH MONTEREY COUNTY
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2017

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Governmental Funds - Balance Sheet	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Proprietary Funds - Statement of Net Position	24
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Position	25
Proprietary Funds - Statement of Cash Flows	26
Fiduciary Funds - Statement of Net Position	27
Notes to Financial Statements	28

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	66
Schedule of the District's Proportionate Share of the Net Pension Liability	67
Schedule of District Contributions	68
Notes to Required Supplementary Information	69

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	71
Local Education Agency Organization Structure	72
Schedule of Average Daily Attendance	73
Schedule of Instructional Time	74
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	75
Schedule of Financial Trends and Analysis	76
First Five Grant - Schedule of Revenues and Expenditures	77
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	78
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	79
Note to Supplementary Information	80

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	83
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	85
Report on State Compliance	87

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	91
Financial Statement Findings	92
Federal Awards Findings and Questioned Costs	93
State Awards Findings and Questioned Costs	94
Summary Schedule of Prior Audit Findings	95
Management Letter	96

FINANCIAL SECTION

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
North Monterey County Unified School District
Moss Landing, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Monterey County Unified School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Monterey County Unified School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15, budgetary comparison schedule on page 66, schedule of the district's proportionate share of net pension liability on page 67, and the schedule of district contributions on page 68, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Monterey County Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the North Monterey County Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of North Monterey County Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Monterey County Unified School District's internal control over financial reporting and compliance.

Varinich, Trine, Day & Co. LLP

Fresno, California
December 11, 2017

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North Monterey County Unified School District

Business Services

♦ 8142 Moss Landing Road ♦ Moss Landing, California 95039-9617 ♦ (831) 633-3343

The discussion and analysis of North Monterey County Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report, notes to financial statements and the District's financial statements, as listed in the table of contents.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999.

FINANCIAL HIGHLIGHTS

- General Fund expenditures and other uses exceeded revenues by \$1.4 million, however, the fund ended the year with available reserves of \$1.6 million meeting the State recommended reserve level of 3.0 percent.
- The total of the District's capital assets, land, land improvements, buildings, and equipment, valued on an acquisition cost basis was \$101.7 million. After depreciation, the June 30, 2017 book value for capital assets totaled \$48.1 million.
- As of June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-and amendment of GASB Statement No. 27*, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2017, the District reported Deferred Outflows from pension activities \$11.1 million, Deferred Inflows from pension activities of \$1.3 million, and a Net Pension Liability of \$46.2 million.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. These statements are organized so the reader can understand the North Monterey County Unified School District as a financial whole; an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

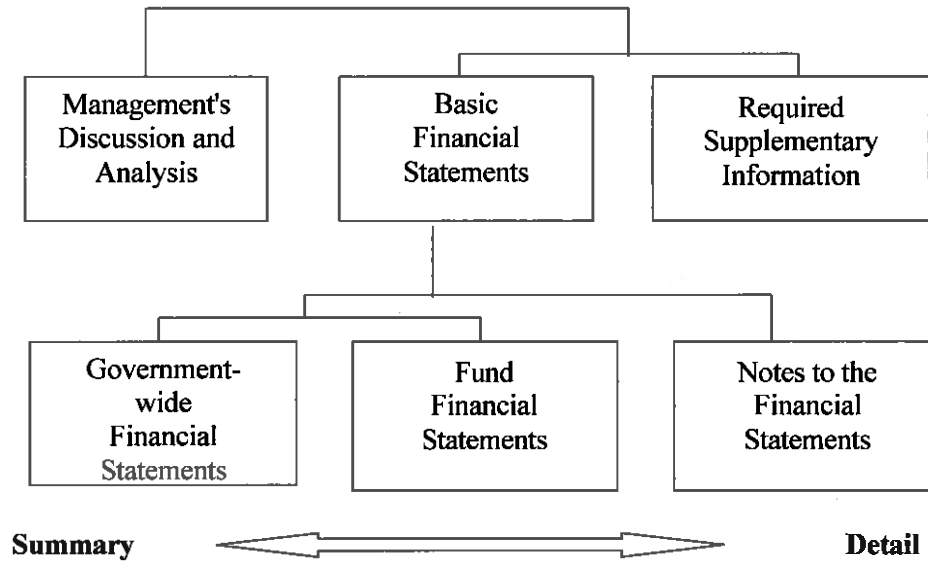
NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Components of the Financial Section



The first two statements are *Government-Wide Financial Statements*, the Statement of Net Position and Statement of Activities. These statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's more significant funds with all other non-major funds presented in total in one column. A comparison of the District's general fund budget is included.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the District as a whole.

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

- ◆ Increases or decreases in the net position of the District over time are indications of whether its financial position is improving or deteriorating, respectively.
- ◆ Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

◆ Governmental Funds

Most of the District's activities are reported in governmental funds. The major governmental funds of the District in the current year are the General Fund, the Building Fund, and the Bond Interest and Redemption Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

◆ Proprietary Funds

Proprietary funds use the full accrual basis of accounting, the same as the District-wide statements. The District currently has one type of proprietary fund, an internal service fund. The internal service fund of the District is the Self-Insurance Fund used to account for the District's self-insured plan.

◆ Fiduciary Funds

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in a separate fiduciary fund Statement of Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The District as a Whole

The District's net position was a deficit of \$2.5 million at June 30, 2017. Of this amount \$9.0 million was restricted. Net investment in capital assets, account for \$15.2 million of the total net position. A comparative analysis of government-wide data is presented in Table 1.

Table 1
Comparative Statement of Net Position

(Amounts in millions)	Governmental Activities		
	2017	2016	Difference
Assets			
Current and other assets	\$ 32.6	\$ 31.8	\$ 0.8
Capital assets	48.1	41.5	6.6
Total Assets	80.7	73.3	7.4
Deferred Outflows of Reserves	11.1	8.5	2.6
Liabilities			
Current liabilities	3.6	4.3	0.7
Long-term obligations	43.1	38.4	(4.7)
Aggregate net pension liability	46.2	36.3	(9.9)
Total Liabilities	92.9	79.0	(13.9)
Deferred Inflows of Reserves	1.4	7.3	5.9
Net Position			
Net investment in capital assets	15.2	14.7	0.5
Restricted	9.0	8.2	0.8
Unrestricted	(26.7)	(27.4)	0.7
Total Net Position	\$ (2.5)	\$ (4.5)	\$ 2.0

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District as a Whole (Continued)

The District's net position was a deficit of \$2.5 million for the fiscal year ended June 30, 2017. Of this amount, a deficit of \$26.7 million was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the school board's ability to use that net position for day to day operations. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

The outstanding long-term obligations of \$43.1 million includes installments of voter-approved general obligation bonds. The voters authorized a total of \$20.8 million of bonded debt in 2002 and \$23.8 million in 2013. Long-term obligations also include liabilities for employee compensated absences and early retirement incentives. Additionally, the District has \$6.2 million in Certificates of Participation (COP) outstanding. (See Table 5 for details)

The District has completed major modernization and construction of new school facilities. The COP issuance provided the required matching funds for state construction grants. Of the \$9.0 million in restricted balances, \$0.2 million consists of developer fee funds restricted for projects.

The District's net asset position increased \$2.0 million this fiscal year (See Table 2). The District's expenses for instructional and pupil services represented 78 percent of total expenses. The purely administrative activities of the District accounted for just seven percent of total costs. The remaining 15 percent was spent in the areas of plant services, interest on long-term obligations and other outgo and other expenses. (See Table 2)

The cost of all governmental activities this year was \$62.6 million. However, the amount our taxpayers ultimately financed through local taxes for activities other than debt service was only \$16.5 million. The amount that was financed by other government agencies and organizations that subsidized certain programs with grants and contributions was \$12.4 million.

The remaining revenue consisted of federal and state aid not restricted to a specific purpose of \$29.1 million, and of charges for services, other local grants, and interest income. Taxes levied for debt service accounted for \$3.5 million. This is based on General Obligation Bonds approved by the electorate in November 2002 and November 2013.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District as a Whole (Concluded)

Table 2
Comparative Statement of Changes in Net Position

(Amounts in millions)	Governmental Activities		
	2017	2016	Difference
Revenues			
Program revenues:			
Charges for services	\$ 0.1	\$ 0.1	\$ -
Operating grants and contributions	12.4	13.2	(0.8)
General revenues:			
Federal and State aid not restricted	29.1	29.0	0.1
Property taxes	20.0	18.1	1.9
Other general revenues	3.0	1.3	1.7
Total Revenues	64.6	61.7	2.9
Expenses			
Instruction related	40.2	38.0	(2.2)
Student support services	8.5	8.2	(0.3)
Administration	4.2	3.5	(0.7)
Plant services	5.7	5.0	(0.7)
Other	4.0	3.2	(0.8)
Total Expenses	62.6	57.9	(4.7)
Change in Net Position	\$ 2.0	\$ 3.8	\$ (1.8)

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

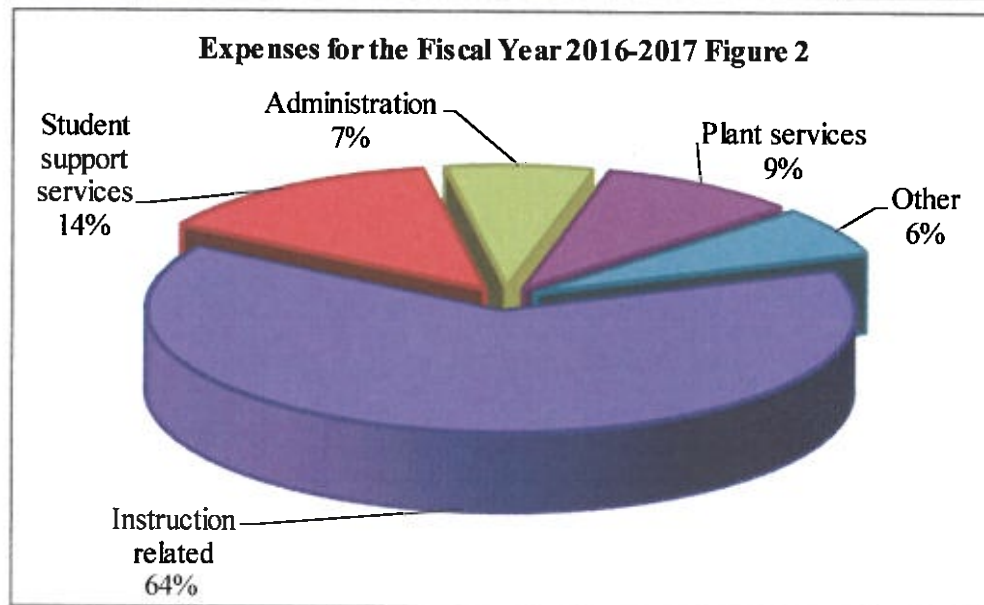
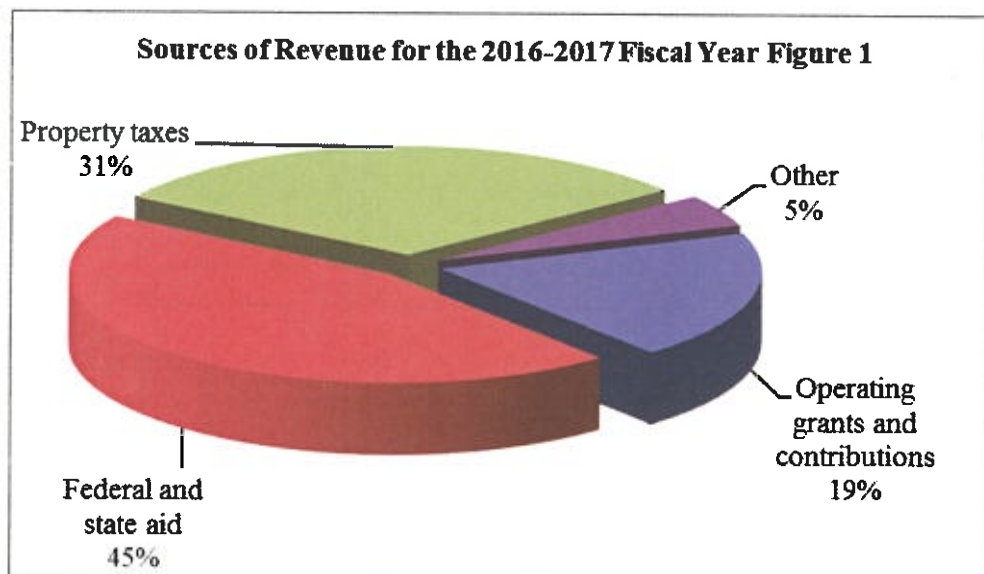
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)

Governmental Activities

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$62.6 million. The amount that our local taxpayers financed for these activities through property taxes was \$20.0 million. Federal and State aid not restricted to specific purposes totaled \$29.1 million. State and Federal Categorical revenue totaled over \$12.4 million, or 19 percent of the revenue of the entire District (See Figure 1).



NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$28.9 million, an increase of \$1.5 million from the previous fiscal year's combined ending balance of \$27.4 million. This increase is mainly reflected in the Bond Interest & Redemption Fund due to increased property taxes collected to service voter approved bond debt and the Deferred Maintenance Fund for future repairs and maintenance projects.

**Table 3
District's Fund Balances**

(Amounts in millions)	Fund Balances		
	June 30, 2017	June 30, 2016	Difference
Major Governmental Funds			
General	\$ 10.2	\$ 11.6	\$ (1.4)
Building	9.8	9.3	0.5
Bond Interest and Redemption	2.9	1.5	1.4
Non-Major Governmental Funds			
Adult Education	- ¹	- ¹	-
Child Development	0.6	0.5	0.1
Cafeteria	1.8	1.6	0.2
Deferred Maintenance	0.9	- ¹	0.9
Capital Facilities	0.2	0.2	-
Debt Service	2.5	2.7	(0.2)
Total	\$ 28.9	\$ 27.4	\$ 1.5

¹ Balances of less than \$60,000 are rounded down to zero in this table.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget monthly. The significant budget adjustments fell into the following categories:

- ◆ Budget revisions to the adopted budget required after approval of the State budget.
- ◆ Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- ◆ Budget revisions approved throughout the year resulted in increases to Capital Outlay primarily for new construction and modernization projects.
- ◆ Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District uses \$5,000 as its capitalization threshold. By the end of the 2016-2017 fiscal year, the District had invested \$101.7 million in a broad range of capital assets, including school buildings, athletic facilities, administrative buildings, site improvements, vehicles, and equipment. Capital assets, net of \$53.6 million of accumulated depreciation, were \$48.1 million at June 30, 2017, which is an increase of \$6.6 million from the previous year.

Table 4
Comparative Schedule of Capital Assets (net of depreciation)

(Amounts in millions)

	Governmental Activities		
	2017	2016	Difference
Land and construction in process as restated	\$ 9.2	\$ 5.3	\$ 3.9
Buildings and improvements	36.6	34.3	2.3
Equipment	2.3	1.9	0.4
Total	<u>\$ 48.1</u>	<u>\$ 41.5</u>	<u>\$ 6.6</u>

Long-Term Obligations

At the end of this year, the District had \$43.1 million in obligations outstanding versus \$38.4 million last year, an increase of \$4.7 million or 12.2 percent. Those obligations consisted of:

Table 5
Comparative Schedule of Outstanding Debt

(Amounts in millions)

	Governmental Activities		
	2017	2016	Difference
General obligation bonds (Financed with property taxes)	\$ 36.5	\$ 29.3	\$ 7.2
Certificates of participation	6.2	6.7	(0.5)
Other postemployment benefits	-	2.1	(2.1)
Other	0.4	0.3	0.1
Total	<u>\$ 43.1</u>	<u>\$ 38.4</u>	<u>\$ 4.7</u>

The District continues to maintain sufficient credit ratings on its debt issues.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Obligations (Concluded)

The long-term obligations paid by the District in 2016-2017 were approximately \$14.0 million. Additionally, the District issued \$16.6 million in General Obligation Bonds included refunding bonds.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Local Control Funding Formula (LCFF) is aimed at correcting historical inequities while decreasing previous constraints on restricted program expenses. The formula is intended to make funding more transparent and simple. With the new flexibility also come new requirements for accountability. The Local Control Accountability Plan (LCAP) is mandated and must be aligned and adopted with the District's 2016-2017 budget. The LCAP is expected to describe how the District intends to meet annual goals for all pupils, with specific activities to address state and local priorities identified during the LCAP development process.

The LCFF is the largest unknown for the District. The new funding structure has no statutory cost of living allowance built into it and relies solely on the annual budget process at the legislative level. Planning for the "out years" will be much more difficult and volatile under the LCFF funding formula. The eight years necessary to bring the District to their target funding could be unpredictable and unstable, thereby creating a need for a larger reserve than past years. The ongoing unpredictability of the District's supplemental and concentration funding under the LCFF will also create unstable budgets even after the district's target has been met in 2020-2021.

Future predictions and uncertainties with the changes to the State funding formula require management to plan carefully and prudently to provide the necessary resources to meet students' needs and continue to keep pace with inflation increases over the next several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Liann Reyes, Assistant Superintendent of Business Services for the North Monterey County Unified School District 8142 Moss Landing Road; MossLanding, CA 95039-9617.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities
ASSETS	
Deposits and investments	\$ 29,053,447
Receivables	2,933,290
Prepaid expenses	612,211
Stores inventories	20,905
Nondepreciable capital assets	9,252,055
Capital assets being depreciated	92,410,900
Accumulated depreciation	(53,574,642)
Total Assets	80,708,166
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	11,149,556
LIABILITIES	
Overdrafts	217,823
Accounts payable	3,021,880
Unearned revenue	384,220
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,700,536
Noncurrent portion of long-term obligations other than pensions	41,350,459
Total Long-Term Obligations	43,050,995
Aggregate net pension liability	46,193,573
Total Liabilities	92,868,491
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows on refunding	158,932
Deferred inflows of resources related to pensions	1,271,570
Total Deferred Inflows of Resources	1,430,502
NET POSITION	
Net investment in capital assets	15,197,142
Restricted for:	
Debt service	5,366,314
Capital projects	240,784
Educational programs	1,655,780
Other activities	1,758,568
Unrestricted	(26,659,859)
Total Net Position	\$ (2,441,271)

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 32,681,502	\$ 20,975	\$ 6,427,385	\$ (26,233,142)
Instruction-related activities:				
Supervision of instruction	2,845,546	3,614	933,967	(1,907,965)
Instructional library, media, and technology	507,360	-	-	(507,360)
School site administration	4,200,715	5,918	504,246	(3,690,551)
Pupil services:				
Home-to-school transportation	2,214,646	-	-	(2,214,646)
Food services	2,605,612	105,794	2,437,049	(62,769)
All other pupil services	3,724,998	1,577	950,333	(2,773,088)
Administration:				
Data processing	1,101,914	-	25	(1,101,889)
All other administration	3,040,950	7,015	428,043	(2,605,892)
Plant services	5,726,490	112	45,913	(5,680,465)
Ancillary services	377,114	-	3,569	(373,545)
Enterprise services	61,532	-	3,045	(58,487)
Interest on long-term obligations	2,313,678	-	-	(2,313,678)
Other outgo	1,215,124	-	631,742	(583,382)
Total Governmental Activities	\$ 62,617,181	\$ 145,005	\$ 12,365,317	(50,106,859)
General revenues and subventions:				
Property taxes, levied for general purposes				16,500,518
Property taxes, levied for debt service				3,461,906
Federal and State aid not restricted to specific purposes				29,115,693
Interest and investment earnings				219,823
Miscellaneous				2,832,479
Subtotal, General Revenues				52,130,419
Change in Net Position				2,023,560
Net Position - Beginning				(4,464,831)
Net Position - Ending				\$ (2,441,271)

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2017

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 11,117,086	\$ 9,775,569	\$ 2,859,595
Receivables	1,573,447	33,169	-
Due from other funds	105,040	-	-
Prepaid expenditures	570,768	-	-
Stores inventories	-	-	-
Total Assets	<u>\$ 13,366,341</u>	<u>\$ 9,808,738</u>	<u>\$ 2,859,595</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ -	\$ -	\$ -
Accounts payable	2,782,980	3,588	-
Due to other funds	8,894	-	-
Unearned revenue	376,525	-	-
Total Liabilities	<u>3,168,399</u>	<u>3,588</u>	<u>-</u>
Fund Balances:			
Nonspendable	575,768	-	-
Restricted	1,361,996	9,805,150	2,859,595
Committed	-	-	-
Assigned	6,652,180	-	-
Unassigned	1,607,998	-	-
Total Fund Balances	<u>10,197,942</u>	<u>9,805,150</u>	<u>2,859,595</u>
Total Liabilities and Fund Balances	<u>\$ 13,366,341</u>	<u>\$ 9,808,738</u>	<u>\$ 2,859,595</u>

The accompanying notes are an integral part of these financial statements.

Non-Major Governmental Funds	Total Governmental Funds
\$ 5,244,679	\$ 28,996,929
1,303,326	2,909,942
8,894	113,934
1,073	571,841
20,905	20,905
<u>\$ 6,578,877</u>	<u>\$ 32,613,551</u>

\$ 217,823	\$ 217,823
235,312	3,021,880
105,040	113,934
7,695	384,220
<u>565,870</u>	<u>3,737,857</u>

21,978	597,746
4,539,196	18,565,937
930,945	930,945
520,888	7,173,068
-	1,607,998
<u>6,013,007</u>	<u>28,875,694</u>
<u>\$ 6,578,877</u>	<u>\$ 32,613,551</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2017

Total Fund Balance - Governmental Funds **\$ 28,875,694**

**Amounts Reported for Governmental Activities in the
Statement of Net Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 101,662,955	
Accumulated depreciation is	<u>(53,574,642)</u>	
Net Capital Assets		48,088,313

An internal service fund is used by the District's management to charge the costs of the dental and vision insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 120,236

Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis. 4,124,409

The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. 1,648,571

The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. 4,716,387

The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. (196,854)

The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. (414,527)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (46,193,573)

Deferred amounts on refunding (the difference between the reacquisition price of the net carrying amount of the refunded debt) are capitalized and amortized over the remaining life of the new or old debt, whichever is shorter. (158,932)

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION, Continued JUNE 30, 2017

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

General obligation bonds	\$ 34,500,000	
Bond premiums	2,039,143	
Certificates of participation	6,140,000	
Capital leases	17,178	
Other postemployment benefits	89,296	
Compensated absences	76,929	
Early retirement	188,449	
	<hr/>	
Total Long-Term Obligations		\$ (43,050,995)
Total Net Position - Governmental Activities		<u><u>\$ (2,441,271)</u></u>

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Building Fund
REVENUES		
Local Control Funding Formula	\$ 43,327,867	\$ -
Federal sources	3,283,516	-
Other State sources	4,809,465	-
Other local sources	2,713,343	488,394
Total Revenues	54,134,191	488,394
EXPENDITURES		
Current		
Instruction	29,893,406	-
Instruction-related activities:		
Supervision of instruction	2,295,636	-
Instructional library, media and technology	509,100	-
School site administration	4,043,495	-
Pupil services:		
Home-to-school transportation	2,717,575	-
Food services	40,917	-
All other pupil services	3,300,395	-
Administration:		
Data processing	1,083,316	-
All other administration	2,567,602	-
Plant services	4,777,947	190,131
Facility acquisition and construction	677,693	7,865,003
Ancillary services	374,837	-
Other outgo	1,215,124	-
Enterprise services	59,625	-
Debt service		
Principal	16,336	-
Interest and other	3,959	-
Total Expenditures	53,576,963	8,055,134
Excess (Deficiency) of Revenues Over Expenditures	557,228	(7,566,740)
Other Financing Sources		
Transfers in	-	-
Other sources	-	8,096,750
Transfers out	(1,925,576)	-
Other uses	-	-
Net Financing Sources	(1,925,576)	8,096,750
NET CHANGE IN FUND BALANCES	(1,368,348)	530,010
Fund Balance - Beginning	11,566,290	9,275,140
Fund Balance - Ending	\$ 10,197,942	\$ 9,805,150

The accompanying notes are an integral part of these financial statements.

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 500,000	\$ 43,827,867
-	2,805,885	6,089,401
27,147	1,870,388	6,707,000
3,460,911	810,560	7,473,208
<u>3,488,058</u>	<u>5,986,833</u>	<u>64,097,476</u>
-	1,474,295	31,367,701
-	208,942	2,504,578
-	-	509,100
-	253,893	4,297,388
-	-	2,717,575
-	2,458,896	2,499,813
-	139,889	3,440,284
-	-	1,083,316
-	239,153	2,806,755
-	436,540	5,404,618
-	642,314	9,185,010
-	-	374,837
-	-	1,215,124
-	-	59,625
1,030,000	575,000	1,621,336
1,695,794	454,993	2,154,746
<u>2,725,794</u>	<u>6,883,915</u>	<u>71,241,806</u>
<u>762,264</u>	<u>(897,082)</u>	<u>(7,144,330)</u>
-	1,925,576	1,925,576
10,345,514	-	18,442,264
-	-	(1,925,576)
(9,800,000)	-	(9,800,000)
<u>545,514</u>	<u>1,925,576</u>	<u>8,642,264</u>
1,307,778	1,028,494	1,497,934
1,551,817	4,984,513	27,377,760
<u>\$ 2,859,595</u>	<u>\$ 6,013,007</u>	<u>\$ 28,875,694</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

Total Net Change in Fund Balances - Governmental Funds **\$ 1,497,934**

**Amounts Reported for Governmental Activities in the Statement
of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 9,735,312	
Depreciation expense	<u>(3,173,472)</u>	
Net Expense Adjustment		6,561,840

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and early retirement are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, the early retirement obligations paid were more than that granted by \$60,935. Vacation earned was more than the amounts used by \$51,936.

8,999

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.

(1,234,080)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:

2,123,227

In the current year, a District retiree benefits agreement was recognized in the Government-Wide Financial Statements.

(89,296)

Proceeds received from the sale of bonds are revenues in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.

(16,640,000)

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2017

Governmental funds report the effect of premiums, discounts, and deferred amounts on refunding when the debt is first issued, however, the amounts are deferred and amortized on the statement of activities.

Premium on current year debt issuance	\$ (1,802,264)
Amortization of debt premium	365,937
Deferred amount on current year refunding	(170,989)
Amortization of deferred amount on refunding	12,057

Refunding of debt is reported as other financing uses in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

9,800,000

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	1,030,000
Certificates of participation	575,000
Capital lease obligations	16,336

An internal service fund is used by the District's management to charge the costs of the self insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

(31,141)

Change in Net Position of Governmental Activities

\$ 2,023,560

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2017

	Self Insurance Internal Service Fund
ASSETS	
Deposits and investments	\$ 56,518
Receivables	23,348
Prepaid expenses	40,370
Total Assets	\$ 120,236
NET POSITION	
Restricted	\$ 120,236

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Self Insurance Internal Service Fund
OPERATING REVENUES	
Self insurance premiums	\$ 440,206
OPERATING EXPENSES	
Services and other operating expenses	471,660
Operating Loss	(31,454)
NONOPERATING REVENUES	
Interest income	313
Change in Net Position	(31,141)
Total Net Position - Beginning	151,377
Total Net Position - Ending	\$ 120,236

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2017

	Self Insurance Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts for self insurance premiums	\$ 498,724
Cash payments for services and other operating expenses	(512,030)
Net Cash Used for Operating Activities	(13,306)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	313
Net Decrease in Cash and Cash Equivalents	(12,993)
Cash and Cash Equivalents - Beginning	69,511
Cash and Cash Equivalents - Ending	\$ 56,518
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	\$ (31,454)
Changes in assets and liabilities:	
Receivables	(17,741)
Due from other funds	76,259
Prepaid expenses	(40,370)
NET CASH USED FOR OPERATING ACTIVITIES	\$ (13,306)

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2017

	Agency Funds
ASSETS	
Deposits and investments	<u><u>\$ 221,402</u></u>
LIABILITIES	
Due to student groups	<u><u>\$ 221,402</u></u>

The accompanying notes are an integral part of these financial statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The North Monterey County Unified School District was organized on July 1, 1977, under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates four elementary schools, one middle school, one comprehensive high school, an independent study program, one continuation school, and an adult education program.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For North Monterey County Unified School District, this includes general operations, food service, and student related activities of the District.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for, and the payment of, principal and interest on general long-term obligations.

Debt Service Fund This fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term obligations.

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a Self Insurance Fund that is accounted for in an internal service fund that accounts for dental and vision coverage.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The District's fiduciary fund category is agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Investments

Investments held at June 30, 2017, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the Statement of Net Position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accounts Payable and Long-Term Obligations

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Debt Premiums

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt premiums are amortized over the life of the debt using the straight-line method.

In governmental fund financial statements, debt premiums, as well as issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items and for deferred amounts on refunding.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Fund Balances - Governmental Funds

As of June 30, 2017, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Superintendent or designee may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

In the fiscal year 2011-2012, the Governing Board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$9,021,446 of restricted net position.

Interfund Activity

Transfers between governmental activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of Activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the *California Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Monterey bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The District has implemented the provisions of this Statement as of June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The District has implemented the provisions of this Statement as of June 30, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental activities, net of overdrafts	\$ 28,835,624
Fiduciary funds	221,402
Total Deposits and Investments	<u>\$ 29,057,026</u>

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 231,575
Cash in revolving	5,000
Investments, net of overdrafts	28,820,651
Total Deposits and Investments	<u>\$ 29,057,226</u>

At June 30, 2017, the Adult Education Non-Major Governmental Fund had a deficit cash in County Treasury balance of \$217,823.

Policies and Practices

The District is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool which purchases a combination of shorter term and longer term investments and which also times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 28,787,534	\$ -	\$ 28,787,534	\$ -	\$ -

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, none of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Uncategorized - Investments in the Monterey County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consist of intergovernmental grants, entitlements, state apportionments, and local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government						
Categorical aid	\$ 348,455	\$ -	\$ 670,562	\$ 1,019,017	\$ -	\$ 1,019,017
State Government						
State principal apportionment	388,912	-	-	388,912	-	388,912
State grants and entitlements	463,971	-	569,275	1,033,246	-	1,033,246
Local Sources	372,109	33,169	63,489	468,767	23,348	492,115
Total	<u>\$1,573,447</u>	<u>\$ 33,169</u>	<u>\$ 1,303,326</u>	<u>\$ 2,909,942</u>	<u>\$ 23,348</u>	<u>\$ 2,933,290</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, is as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,061,512	\$ -	\$ -	\$ 1,061,512
Construction in process as restated	4,221,468	7,410,829	3,441,754	8,190,543
Total Capital Assets Not Being Depreciated	5,282,980	7,410,829	3,441,754	9,252,055
Capital Assets Being Depreciated				
Land improvements	8,944,909	960,742	-	9,905,651
Buildings and improvements	71,029,593	4,025,837	-	75,055,430
Furniture and equipment	6,670,161	779,658	-	7,449,819
Total Capital Assets Being Depreciated	86,644,663	5,766,237	-	92,410,900
Less Accumulated Depreciation				
Land improvements	7,778,999	80,239	-	7,859,238
Buildings and improvements	37,922,720	2,617,828	-	40,540,548
Furniture and equipment	4,699,451	475,405	-	5,174,856
Total Accumulated Depreciation	50,401,170	3,173,472	-	53,574,642
Governmental Activities Capital Assets, Net	\$41,526,473	\$ 10,003,594	\$ 3,441,754	\$ 48,088,313

Depreciation expense was charged to functional expenditures as follows:

Governmental Activities	
Instruction	\$ 1,713,675
Instructional supervision and administration	349,082
Instructional library, media, and technology	31,735
Home-to-school transportation	126,939
Food services	158,674
All other other pupil services	190,408
All other general administration	190,408
Plant services	412,551
Total Depreciation Expenses, Governmental Activities	\$ 3,173,472

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2017, between major and non-major governmental funds are as follows:

	Interfund Receivables	Interfund Payables
Major Governmental Fund		
General	\$ 105,040	\$ 8,894
Non-Major Governmental Funds		
Child Development	8,894	44,733
Cafeteria	-	34
Deferred Maintenance	-	60,273
Total Non-Major Governmental Funds	8,894	105,040
Total All Governmental Funds	\$ 113,934	\$ 113,934

The General Fund owes the Child Development Non-Major Governmental Fund for a Migrant Education program expense coding error.

\$ 8,894

The Child Development Non-Major Governmental Fund owes the General Fund for indirect costs.

22,728

The Child Development Non-Major Governmental Fund owes the General Fund for a reclassification of expenditures that were coded to the after school program.

22,005

The Cafeteria Non-Major Governmental Fund owes the General Fund for a payroll coding error.

34

The Deferred Maintenance Non-Major Governmental Fund owes the General Fund for carpet replacement costs that were coded to the General Fund in error.

3,700

The Deferred Maintenance Non-Major Governmental Fund owes the General Fund for repairs that were coded to the General Fund in error.

56,573

Total

\$ 113,934

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2017, consist of the following:

The General Fund transferred to the Debt Service Non-Major Governmental Fund for future payments on the District's Certificates of Participation.	\$ 500,000
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund to re-establish the fund.	1,179,334
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund per the Board approved plan.	98,492
The General Fund transferred to the Adult Education Non-Major Governmental Fund to re-establish the fund.	147,750
Total	<u>\$ 1,925,576</u>

NOTE 7 - PREPAID EXPENDITURES

Prepaid expenditures at June 30, 2017, consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Self Insurance Fund	Total Governmental Activities
Membership dues and fees	<u>\$570,768</u>	<u>\$ 1,073</u>	<u>\$ 571,841</u>	<u>\$ 40,370</u>	<u>\$ 612,211</u>

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consists of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
Vendor payables	\$ 774,812	\$ 3,588	\$ 107,081	\$ 885,481
Accrued payroll	1,961,001	-	128,231	2,089,232
State principal apportionment	47,167	-	-	47,167
Total	<u>\$ 2,782,980</u>	<u>\$ 3,588</u>	<u>\$ 235,312</u>	<u>\$ 3,021,880</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 9 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 67,367	\$ 7,695	\$ 75,062
State financial assistance	309,158	-	309,158
Total	<u>\$ 376,525</u>	<u>\$ 7,695</u>	<u>\$ 384,220</u>

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
General Obligation Bonds	\$28,690,000	\$16,640,000	\$10,830,000	\$34,500,000	\$995,000
Bond premiums	602,816	1,802,264	365,937	2,039,143	-
Certificates of Participation	6,715,000	-	575,000	6,140,000	580,000
Capital leases	33,514	-	16,336	17,178	17,178
Other postemployment benefits	2,123,227	-	2,123,227	-	-
Retiree Benefits Agreement	-	89,296	-	89,296	-
Compensated absences	24,993	51,936	-	76,929	-
Early retirement	249,384	61,465	122,400	188,449	108,358
Total	<u>\$38,438,934</u>	<u>\$18,644,961</u>	<u>\$14,032,900</u>	<u>\$43,050,995</u>	<u>\$1,700,536</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local tax revenues. Payments for the Certificates of Participation are made by the Debt Service Fund. The capital leases are paid by the General Fund. The compensated absences, other postemployment benefits obligation, and early retirement obligation will be paid by the fund for which the employee worked.

Bonded Debt

On October 23, 2012, the District issued 2012 General Obligation Refunding Bonds in the principal amount of \$4,425,000. The Bonds were issued to refund, on an advance basis, the portion of the District's outstanding Election of 2002, Series A General Obligation Bonds maturing on and after August 1, 2014, and to pay the costs of issuance of the Bonds. The Bonds mature through August 1, 2027.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

On May 14, 2014, the District issued Election of 2013, Series A General Obligation Bonds in the principal amount of \$15,500,000. The Bonds were issued to finance the acquisition and construction of educational facilities and projects, and to pay the costs of issuance of the Bonds. The bonds were issued as current interest bonds with interest payable semiannually on May 1 and November 1 of each year, commencing November 1, 2014. The Bonds mature through May 1, 2044.

On August 3, 2016, the District issued Election of 2013, Series B General Obligation Bonds in the principal amount of \$8,300,000. The Series B Bonds represent the second and last issue of bonds under the 2013 Authorization. The Bonds were issued to finance the acquisition and construction of educational facilities and projects, and to pay the costs of issuance of the Bonds. The bonds were issued as current interest bonds with interest payable semiannually on May 1 and November 1 of each year, commencing February 1, 2017. The Bonds mature through May 1, 2044.

On August 3, 2016, the District issued \$8,340,000 of 2016 General Obligation Refunding Bonds. The bonds were issued for the purpose of refunding, on a current basis, the District's outstanding General Obligation Bonds, Election of 2002, Series B. The refunding bonds were issued as current interest bonds with interest payable semiannually on February 1 and August 1 of each year, commencing February 1, 2017. The Bonds mature through August 1, 2029.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2016	Issued	Redeemed	Bonds Outstanding June 30, 2017
2005	Refunded	2.50-4.75	\$ 13,750,000	\$ 10,335,000	\$ -	\$ 10,335,000	\$ -
2013	2028	2.50	4,425,000	3,835,000	-	275,000	3,560,000
2014	2044	2.00-4.00	15,500,000	14,520,000	-	40,000	14,480,000
2017	2044	2.50	8,300,000	-	8,300,000	180,000	8,120,000
2017	2030	2.00-4.00	8,340,000	-	8,340,000	-	8,340,000
Total				\$ 28,690,000	\$ 16,640,000	\$ 10,830,000	\$ 34,500,000

Debt Service Requirements to Maturity

The 2012 General Obligation Bonds mature through 2028 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 285,000	\$ 85,437	\$ 370,437
2019	290,000	78,250	368,250
2020	295,000	70,937	365,937
2021	310,000	63,375	373,375
2022	315,000	55,563	370,563
2023-2027	1,700,000	153,999	1,853,999
2028	365,000	4,562	369,562
Total	\$ 3,560,000	\$ 512,123	\$ 4,072,123

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The 2013, Series A General Obligation Bonds mature through 2044 as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2018	\$ 60,000	\$ 613,256	\$ 673,256
2019	80,000	610,856	690,856
2020	100,000	607,656	707,656
2021	120,000	603,656	723,656
2022	145,000	601,256	746,256
2023-2027	1,100,000	2,938,783	4,038,783
2028-2032	1,965,000	2,691,362	4,656,362
2033-2037	3,295,000	2,092,250	5,387,250
2038-2042	5,085,000	1,155,650	6,240,650
2043-2044	2,530,000	152,000	2,682,000
Total	<u>\$ 14,480,000</u>	<u>\$ 12,066,725</u>	<u>\$ 26,546,725</u>

The 2013, Series B General Obligation Bonds mature through 2044 as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2018	\$ 100,000	\$ 239,976	\$ 339,976
2019	100,000	237,974	337,974
2020	110,000	235,976	345,976
2021	120,000	233,774	353,774
2022	130,000	231,376	361,376
2023-2027	855,000	1,102,576	1,957,576
2028-2032	1,265,000	947,512	2,212,512
2033-2037	1,785,000	708,324	2,493,324
2038-2042	2,400,000	412,650	2,812,650
2043-2044	1,255,000	58,200	1,313,200
Total	<u>\$ 8,120,000</u>	<u>\$ 4,408,338</u>	<u>\$ 12,528,338</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The 2016 General Obligation Refunding Bonds mature through 2030 as follows:

Maturity	Principal	Interest to Maturity	Total
2018	\$ 550,000	\$ 355,950	\$ 905,950
2019	510,000	342,800	852,800
2020	525,000	324,650	849,650
2021	550,000	303,150	853,150
2022	575,000	280,650	855,650
2023-2027	3,285,000	996,650	4,281,650
2028-2030	2,345,000	180,125	2,525,125
Total	<u>\$ 8,340,000</u>	<u>\$ 2,783,975</u>	<u>\$ 11,123,975</u>

Related refunding information:

Cash flow requirements of refunded Bonds	13,289,063
Cash flow requirements of 2016 Refunding Bonds	11,287,632
Cash flow savings	2,001,431
Economic Gain (net present value savings)	<u>\$ 1,694,431</u>

Certificates of Participation

On July 14, 2010, the District issued 2010 Certificates of Participation in the principal amount of \$10,000,000. The Certificates are designated as Qualified School Construction Bonds under which the District receives Federal subsidy payments which are pledged to the payment of interest on the Certificates. The Certificates were issued to finance various capital projects of the District, to fund a reserve fund surety for the lease payments, and to pay costs of executing and delivering the Certificates. Interest on the Certificates ranges from 5.75 to 7.00 percent and is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2010.

The 2010 Certificates of Participation mature through 2027 as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 580,000	\$ 414,950	\$ 994,950
2019	585,000	377,250	962,250
2020	595,000	339,224	934,224
2021	600,000	300,550	900,550
2022	610,000	300,550	910,550
2023-2027	3,170,000	1,109,500	4,279,500
Total	<u>\$ 6,140,000</u>	<u>\$ 2,842,024</u>	<u>\$ 8,982,024</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Capital Leases

The District has entered into an agreement to lease equipment. The agreement is, in substance, a purchase (capital leases) and is reported as a capital lease obligation. The District's liability on the lease agreement is summarized below:

	Capital Leases
Balance, July 1, 2016	\$ 33,514
Payments	16,336
Balance, June 30, 2017	<u>\$ 17,178</u>

The capital lease has a minimum lease payment as follows:

Year Ending June 30, 2017	Lease Payment
	\$ 17,650
Less: Amount Representing Interest	472
Present Value of Minimum Lease Payments	<u>\$ 17,178</u>

Other Postemployment Benefit (OPEB) Obligation

Under the current agreements with the District's bargaining units, the District no longer provides a Postemployment Benefit Plan. The plan had provided health and welfare benefits to eligible retirees and consisted of retirees and active plan members. There is currently no obligation remaining with respect to the discontinued OPEB plan.

Retiree Benefits Agreement

The District has an agreement with one former District employee in which the former employee continues to receive health and welfare benefits. At June 30, 2017, the obligation was calculated to be \$89,296.

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2017, amounted to \$76,929.

Early Retirement Obligations

The Governing Board has offered early retirement incentive programs to certificated and classified employees meeting certain negotiated criteria. The early retirement incentives were implemented as a cost savings strategy and required no further services to be performed by the retiree.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In the current year, seven certificated employees accepted early retirement incentives. A total of 17 retirees are currently receiving benefits under various agreements. The projected costs for current participants for future years are accrued as long-term obligations in the District's Government-wide financial statements are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Obligation</u>
2018	\$ 108,358
2019	54,325
2020	20,820
2021	4,946
Total	<u>\$ 188,449</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable					
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Stores inventory	-	-	-	20,905	20,905
Prepaid expenditures	570,768	-	-	1,073	571,841
Total Reserved	575,768	-	-	21,978	597,746
Restricted					
Legally restricted programs	1,361,996	-	-	-	1,361,996
Food service	-	-	-	1,497,909	1,497,909
Child development program	-	-	-	275,310	275,310
Capital projects	-	9,805,150	-	240,784	10,045,934
Debt service	-	-	2,859,595	2,506,719	5,366,314
Adult education program	-	-	-	18,474	18,474
Total Restricted	1,361,996	9,805,150	2,859,595	4,539,196	18,565,937
Committed					
Deferred maintenance program	-	-	-	930,945	930,945
Assigned					
Chromebook carts	150,000	-	-	-	150,000
One-time money carryover	326,000	-	-	-	326,000
ROP carryover	195,063	-	-	-	195,063
Credit recovery program	64,410	-	-	-	64,410
ELA adoption K-8	200,000	-	-	-	200,000
Math adoption 7-8	100,000	-	-	-	100,000
Science adoption K-12	200,000	-	-	-	200,000
Additional teacher due to growth	85,000	-	-	-	85,000
Special Education contingency	363,000	-	-	-	363,000
CalSTRS increase					
2017-2018 through 2021	2,052,000	-	-	-	2,052,000
CalPERS increase					
2017-2018 through 2021	1,301,000	-	-	-	1,301,000
CSEA cap increase 2017-					
2018 through 2021	293,000	-	-	-	293,000
Classroom technology	40,397	-	-	-	40,397
COP payment	595,000	-	-	-	595,000
Athletics/music equipment carryover	337,310	-	-	-	337,310
Emergency facility repair	350,000	-	-	-	350,000
Child development programs	-	-	-	282,207	282,207
Enterprise expenditures	-	-	-	238,681	238,681
Total Assigned	6,652,180	-	-	520,888	7,173,068
Unassigned					
Reserve for economic uncertainties	1,607,998	-	-	-	1,607,998
Total	<u>\$10,197,942</u>	<u>\$ 9,805,150</u>	<u>\$ 2,859,595</u>	<u>\$ 6,013,007</u>	<u>\$ 28,875,694</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District contracted with Monterey and San Benito Counties Property/Liability Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2017, the District participated in the Protected Insurance Program for Schools and Community Colleges Joint Powers Authority (PIPS). The intent of PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in PIPS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in PIPS. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of PIPS. Participation in PIPS is limited to districts that can meet PIPS selection criteria.

Employee Medical Benefits

The District is a member of California's Valued Trust (CVT). CVT is a Joint Powers Authority formed out of the California Government Code which allows public agencies to jointly maintain and operate an agency that serves a common purpose. One of the programs offered by CVT that the District participates in is Vision and Dental benefits for school employees. Some of the programs are self-insured while others are fully-insured or a combination of both. The coverage year for the Vision and Dental programs run from January 1 through December 31. The District also self-insures all non-CSEA employees and all retirees for Dental and Vision Benefits and has contracted with Keenan & Associates to provide administration for related claims.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

For the fiscal year ended June 30, 2017, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 32,396,266	\$ 6,436,886	\$ 790,270	\$ 3,386,804
CalPERS	13,797,307	4,712,670	481,300	1,971,685
Total	<u>\$ 46,193,573</u>	<u>\$ 11,149,556</u>	<u>\$ 1,271,570</u>	<u>\$ 5,358,489</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the District's total contributions were \$2,767,349.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 32,396,266
State's proportionate share of the net pension liability associated with the District	18,442,616
Total	<u>\$ 50,838,882</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively was 0.0401 percent and 0.0398 percent, resulting in a net increase in the proportionate share of 0.0003 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$3,386,804. In addition, the District recognized pension expense and revenue of \$1,782,673 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,767,349	\$ -
Net change in proportionate share of net pension liability	1,094,049	-
Difference between projected and actual earnings on pension plan investments	2,575,488	-
Differences between expected and actual experience in the measurement of the total pension liability	-	790,270
Total	\$ 6,436,886	\$ 790,270

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2018	\$ 56,189
2019	56,189
2020	1,497,141
2021	965,969
Total	\$ 2,575,488

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 69,846
2019	69,846
2020	69,846
2021	69,846
2022	69,846
Thereafter	(45,451)
Total	<u>\$ 303,779</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of ten-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 46,625,533
Current discount rate (7.60%)	\$ 32,396,266
1% increase (8.60%)	\$ 20,578,264

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:
<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2017, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	13.888%	13.888%

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total District contributions were \$1,357,060.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$13,797,307. The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively was 0.0699 percent and 0.0644 percent, resulting in a net increase in the proportionate share of 0.0055 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$1,971,685. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,357,060	\$ -
Net change in proportionate share of net pension liability	621,295	66,773
Difference between projected and actual earnings on pension plan investments	2,140,899	-
Differences between expected and actual experience in the measurement of the total pension liability	593,416	-
Changes of assumptions		414,527
Total	<u>\$ 4,712,670</u>	<u>\$ 481,300</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2018	\$ 300,289
2019	300,290
2020	981,565
2021	558,755
Total	<u>\$ 2,140,899</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 235,527
2019	240,564
2020	257,320
Total	<u>\$ 733,411</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.65%)	\$ 20,585,659
Current discount rate (7.65%)	\$ 13,797,307
1% increase (8.65%)	\$ 8,144,668

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Other Information

Under CalSTRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligations to CalSTRS for early retirement incentives granted to terminated employees.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to Social Security.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,605,345 (8.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

Litigation

The District is not currently a party to any legal proceedings.

Operating Leases

The District has entered into various operating leases for equipment with no lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Boiler/heating project	\$ 159,723	11/30/17
Synthetic turf	103,678	11/10/17
Athletic field	612,309	11/10/17
Walk-in freezer	47,700	10/31/17
Total	<u>\$ 923,410</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Monterey and San Benito Counties Property/Liability Joint Powers Authority (MC/SB P&L JPA), the Protected Insurance Program for Schools and Community Colleges Joint Powers Authority (PIPS), and California's Valued Trust (CVT) public entity risk pools. The District pays an annual premium to the pools for its property/liability, workers' compensation, and health and welfare coverage. The relationships between the District and the pools are such that the pools are not component units of the District for financial reporting purposes.

The pools have budgeting and financial reporting requirements independent of their member units and their financial statements are not presented in these financial statements; however, fund transactions between the pools and the District are included in these statements.

During the year ended June 30, 2017, the District made payments of \$291,551 to MC/SB P&L JPA for property/liability coverage, \$951,220 to PIPS for workers' compensation coverage, and \$5,496,109 to CVT for health and welfare coverage.

REQUIRED SUPPLEMENTARY INFORMATION

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NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Local Control Funding Formula	\$ 43,294,924	\$ 43,327,867	\$ 43,327,867	\$ -
Federal sources	2,881,947	3,525,819	3,283,516	(242,303)
Other State sources	4,139,267	4,869,235	4,809,465	(59,770)
Other local sources	2,115,798	2,506,431	2,713,343	206,912
Total Revenues	<u>52,431,936</u>	<u>54,229,352</u>	<u>54,134,191</u>	<u>(95,161)</u>
EXPENDITURES				
Current				
Certificated salaries	22,016,677	22,675,476	22,084,956	590,520
Classified salaries	9,336,466	9,694,158	9,579,553	114,605
Employee benefits	11,912,209	11,778,926	11,585,236	193,690
Books and supplies	2,988,518	4,792,056	3,481,462	1,310,594
Services and operating expenditures	4,548,237	5,204,689	4,415,202	789,487
Other outgo	1,318,885	949,810	975,971	(26,161)
Capital outlay	469,132	1,648,341	1,434,288	214,053
Debt service - principal	500,000	18,742	16,336	2,406
Debt service - interest	-	1,448	3,959	(2,511)
Total Expenditures	<u>53,090,124</u>	<u>56,763,646</u>	<u>53,576,963</u>	<u>3,186,683</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(658,188)</u>	<u>(2,534,294)</u>	<u>557,228</u>	<u>3,091,522</u>
Other Financing Uses				
Transfers out	<u>(60,000)</u>	<u>(658,492)</u>	<u>(1,925,576)</u>	<u>(1,267,084)</u>
NET CHANGE IN FUND BALANCES	<u>(718,188)</u>	<u>(3,192,786)</u>	<u>(1,368,348)</u>	<u>1,824,438</u>
Fund Balance - Beginning	<u>11,566,290</u>	<u>11,566,290</u>	<u>11,566,290</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 10,848,102</u>	<u>\$ 8,373,504</u>	<u>\$ 10,197,942</u>	<u>\$ 1,824,438</u>

See accompanying note to required supplementary information.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
CalSTRS		
District's proportion of the net pension liability (asset)	0.0401%	0.0398%
District's proportionate share of the net pension liability (asset)	\$ 32,396,266	\$ 26,815,220
State's proportionate share of the net pension liability (asset) associated with the District	18,442,616	14,182,295
Total	\$ 50,838,882	\$ 40,997,515
District's covered - employee payroll	\$ 20,284,995	\$ 19,105,518
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	159.71%	140.35%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%
CalPERS		
District's proportion of the net pension liability (asset)	0.0699%	0.0644%
District's proportionate share of the net pension liability (asset)	\$ 13,797,307	\$ 9,492,836
District's covered - employee payroll	\$ 8,518,773	\$ 7,490,740
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	161.96%	126.73%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%

Note : In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

2015

0.0376%

\$ 22,206,059

13,408,018

\$ 35,614,077

\$ 16,916,123

131.27%

77%

0.0653%

\$ 7,413,140

\$ 6,876,402

107.81%

83%

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
CalSTRS		
Contractually required contribution	\$ 2,767,349	\$ 2,176,580
Contributions in relation to the contractually required contribution	2,767,349	2,176,580
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 21,998,005	\$ 20,284,995
Contributions as a percentage of covered - employee payroll	12.58%	10.73%
CalPERS		
Contractually required contribution	\$ 1,357,060	\$ 1,009,219
Contributions in relation to the contractually required contribution	1,357,060	1,009,219
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 9,771,457	\$ 8,518,773
Contributions as a percentage of covered - employee payroll	13.888%	11.847%

Note : In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

2015

\$ 1,696,570
1,696,570

\$ -

\$ 19,105,518

8.880%

\$ 881,735
881,735

\$ -

\$ 7,490,740

11.771%

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes in Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

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NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Pass-Through Identification Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education:			
Title I - Part A, Basic Grant	84.010	14329	\$ 825,411
Title I - Part A, School Improvement Grant	84.010	14955	343,534
Title I - Part C, Migrant Education	84.011	14838	408,755
Title I - Part C, Migrant Education Summer	84.011	10005	303,594
Title I - Part G, Advance Placement Fee Program	84.330B	14831	8,588
Title II - Supporting Effective Instruction	84.367	14341	259,808
Title III - English Language Acquisition -LEP	84.365	14346	239,217
Vocational Programs: Technology Secondary II C	84.048	14894	35,815
Special Education - Basic Local Assistance	84.027	13379	741,426
Special Education - Supporting Inclusive Practices	84.027A	13693	56,325
Total U.S. Department of Education			<u>3,222,473</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Medi-Cal Billing Option	93.778	10013	42,174
Medi-Cal Administrative Activities	93.778	10060	<u>18,868</u>
Total U.S. Department of Health and Human Services			<u>61,042</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Child and Adult Care Food Program	10.558	13393	40,609
Child Nutrition Cluster:			
National School Lunch	10.555	13391	1,522,458
Especially Needy Breakfast	10.553	13526	642,930
Meals Supplements - Snacks	10.555	13391	47,796
Summer Food Program	10.559	13004	63,521
Food Distribution - Commodities	10.555	13391	148,466
Subtotal Child Nutrition Cluster			<u>2,425,171</u>
Total U.S. Department of Agriculture			<u>2,465,780</u>
Total Expenditures of Federal Awards			<u>\$ 5,749,295</u>

See accompanying note to supplementary information.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2017

ORGANIZATION

North Monterey County Unified School District was organized on July 1, 1977, following a unification election in the former North Monterey County Union School District. The District consists of four elementary schools, one middle school, one comprehensive high school, an independent study program, a continuation school and an adult education program.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Linda Lines	President	2017
Martha Chavarria	Vice President	2019
Elizabeth Samuels	Clerk	2019
Lillian Mulvey	Member	2019
Adrian Ayala	Member	2017

ADMINISTRATION

Kari Yeater	Superintendent and Secretary of Board
Liann Reyes	Assistant Superintendent Business Services

See accompanying note to supplementary information.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2017

	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Transitional kindergarten through third	1,381.62	1,386.72
Fourth through sixth	1,027.71	1,025.83
Seventh and eighth	653.33	650.53
Ninth through twelfth	<u>1,232.78</u>	<u>1,220.33</u>
Total Regular ADA	<u>4,295.44</u>	<u>4,283.41</u>
Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	0.45	0.62
Ninth through twelfth	<u>1.27</u>	<u>1.25</u>
Total Special Education, Nonpublic, Nonsectarian Schools	<u>1.72</u>	<u>1.87</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Ninth through twelfth	<u>0.19</u>	<u>0.19</u>
Total ADA	<u><u>4,297.35</u></u>	<u><u>4,285.47</u></u>

See accompanying note to supplementary information.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2017

Grade Level	1986-1987	2016-2017	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	57,756	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		55,056	180	N/A	Complied
Grade 2		55,056	180	N/A	Complied
Grade 3		55,056	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,056	180	N/A	Complied
Grade 5		55,056	180	N/A	Complied
Grade 6		55,056	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		55,594	180	N/A	Complied
Grade 8		55,594	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,801	180	N/A	Complied
Grade 10		64,801	180	N/A	Complied
Grade 11		64,801	180	N/A	Complied
Grade 12		64,801	180	N/A	Complied

N/A - Not Applicable

See accompanying note to supplementary information.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2017.

See accompanying note to supplementary information.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

	(Budget) 2018 ¹	2017	2016 ³	2015 ³
GENERAL FUND				
Revenues	\$ 53,228,728	\$ 54,134,191	\$ 53,458,844	\$ 43,760,420
Other sources and transfers in	-	-	239,989	-
Total Revenues and Other Sources	53,228,728	54,134,191	53,698,833	43,760,420
Expenditures	55,420,105	53,576,963	49,141,066	41,455,852
Other uses and transfers out	-	598,492	1,074,755	247,676
Total Expenditures and Other Uses	55,420,105	54,175,455	50,215,821	41,703,528
INCREASE/(DECREASE) IN FUND BALANCE	\$ (2,191,377)	\$ (41,264)	\$ 3,483,012	\$ 2,056,892
ENDING FUND BALANCE	\$ 8,006,565	\$ 10,197,942	\$ 10,239,206	\$ 6,756,194
AVAILABLE RESERVES ²	\$ 1,663,000	\$ 1,607,998	\$ 1,499,300	\$ 1,252,000
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.0%	3.0%	3.0%	3.0%
LONG-TERM OBLIGATIONS	Not Available	\$ 43,050,995	\$ 38,438,934	\$ 44,421,691
AVERAGE DAILY ATTENDANCE AT P-2	4,313	4,297	4,298	4,232

The General Fund balance has increased by \$3,441,748 over the past two years. The fiscal year 2017-2018 budget projects a decrease of \$2,191,377 (21.5 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2017-2018 fiscal year. Total long-term obligations have decreased by \$1,370,696 over the past two years.

Average daily attendance has increased by 65 over the past two years. Additional growth of 16 ADA is anticipated during fiscal year 2017-2018.

¹ Budget 2018 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.

³ General Fund amounts do not include activity related to the consolidation of the Adult Education, and the Deferred Maintenance Funds as required by GASB Statement No. 54.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

FIRST FIVE GRANT SCHEDULE OF REVENUES AND EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2017

Revenues:

First Five Monterey County	\$ 197,246
District contributions	4,143
Total Revenues	<u>201,389</u>

Expenditures:

Personnel	139,825
Benefits	33,815
Program expenses	12,527
Program support expenses	2,938
Indirect cost	12,284
Total Expenditures	<u>201,389</u>
Excess of revenues over expenditures	<u>\$ -</u>

See accompanying note to supplementary information.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2017

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ -	\$ 391,556	\$ 1,064,300
Receivables	273,851	294,541	711,112
Due from other funds	-	8,894	-
Prepaid expenses	-	-	1,073
Stores inventories	-	-	20,905
Total Assets	<u>\$ 273,851</u>	<u>\$ 694,991</u>	<u>\$ 1,797,390</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ 217,823	\$ -	\$ -
Accounts payable	37,554	92,741	31,093
Due to other funds	-	44,733	34
Unearned revenue	-	-	7,695
Total Liabilities	<u>255,377</u>	<u>137,474</u>	<u>38,822</u>
Fund Balances:			
Nonspendable	-	-	21,978
Restricted	18,474	275,310	1,497,909
Committed	-	-	-
Assigned	-	282,207	238,681
Total Fund Balances	<u>18,474</u>	<u>557,517</u>	<u>1,758,568</u>
Total Liabilities and Fund Balances	<u>\$ 273,851</u>	<u>\$ 694,991</u>	<u>\$ 1,797,390</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ 1,060,550	\$ 228,554	\$ 2,499,719	\$ 5,244,679
3,539	13,283	7,000	1,303,326
-	-	-	8,894
-	-	-	1,073
-	-	-	20,905
<u>\$ 1,064,089</u>	<u>\$ 241,837</u>	<u>\$ 2,506,719</u>	<u>\$ 6,578,877</u>
\$ -	\$ -	\$ -	\$ 217,823
72,871	1,053	-	235,312
60,273	-	-	105,040
-	-	-	7,695
<u>133,144</u>	<u>1,053</u>	<u>-</u>	<u>565,870</u>
-	-	-	21,978
-	240,784	2,506,719	4,539,196
930,945	-	-	930,945
-	-	-	520,888
<u>930,945</u>	<u>240,784</u>	<u>2,506,719</u>	<u>6,013,007</u>
<u>\$ 1,064,089</u>	<u>\$ 241,837</u>	<u>\$ 2,506,719</u>	<u>\$ 6,578,877</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2017

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Local Control Funding Formula	\$ -	\$ -	\$ -
Federal sources	-	40,608	2,425,171
Other State sources	451,714	1,236,406	182,268
Other local sources	801	464,385	202,914
Total Revenues	<u>452,515</u>	<u>1,741,399</u>	<u>2,810,353</u>
EXPENDITURES			
Current			
Instruction	463,687	1,010,608	-
Instruction-related activities:			
Supervision of instruction	21,300	187,642	-
School site administration	52,502	201,391	-
Pupil services:			
Food services	-	35,229	2,423,667
All other pupil services	5,957	133,932	-
Administration:			
All other administration	35,244	90,495	113,414
Plant services	3,101	39,690	2,596
Facility acquisition and construction	-	7,405	118,642
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>581,791</u>	<u>1,706,392</u>	<u>2,658,319</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(129,276)</u>	<u>35,007</u>	<u>152,034</u>
Other Financing Sources			
Transfers in	147,750	-	-
NET CHANGE IN FUND BALANCES	<u>18,474</u>	<u>35,007</u>	<u>152,034</u>
Fund Balance - Beginning	-	522,510	1,606,534
Fund Balance - Ending	<u>\$ 18,474</u>	<u>\$ 557,517</u>	<u>\$ 1,758,568</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ 500,000	\$ -	\$ -	\$ 500,000
-	-	340,106	2,805,885
-	-	-	1,870,388
16,598	89,756	36,106	810,560
516,598	89,756	376,212	5,986,833
-	-	-	1,474,295
-	-	-	208,942
-	-	-	253,893
-	-	-	2,458,896
-	-	-	139,889
-	-	-	239,153
347,212	43,941	-	436,540
516,267	-	-	642,314
-	-	575,000	575,000
-	-	454,993	454,993
863,479	43,941	1,029,993	6,883,915
(346,881)	45,815	(653,781)	(897,082)
1,277,826	-	500,000	1,925,576
930,945	45,815	(153,781)	1,028,494
-	194,969	2,660,500	4,984,513
\$ 930,945	\$ 240,784	\$ 2,506,719	\$ 6,013,007

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of a Qualified School Construction Bond Federal Subsidy.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 6,089,401
Reconciling items:		
Qualified School Construction Bond Federal Subsidy	NA	(340,106)
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,749,295</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2017

Districts must maintain their instructional minutes at the 1986-1987 requirements as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

First Five Grant

This schedule discloses the District's revenues and expenditures that occurred during the fiscal year to support the First 5 Program. The program is funded from the Tobacco tax money referred to as Proposition 10 money. The program's objectives are to provide early care and educational services with Kindergarten transition programs, provide parenting and family support services, provide health and social services, and to assist in the school's capacity to prepare children and families for school success.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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INDEPENDENT AUDITOR'S REPORTS

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
North Monterey County Unified School District
Moss Landing, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Monterey County Unified School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise North Monterey County Unified School District's basic financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Monterey County Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Monterey County Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of North Monterey County Unified School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Monterey County Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of North Monterey County Unified School District in a separate letter dated December 11, 2017.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varrinck, Trine, Day & Co. LLP

Fresno, California
December 11, 2017



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
North Monterey County Unified School District
Moss Landing, California

Report on Compliance for Each Major Federal Program

We have audited North Monterey County Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of North Monterey County Unified School District's (the District) major Federal programs for the year ended June 30, 2017. North Monterey County Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of North Monterey County Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about North Monterey County Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of North Monterey County Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, North Monterey County Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of North Monterey County Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Monterey County Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Monterey County Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Varinich, Trine, Day & Co. LLP

Fresno, California
December 11, 2017



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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
North Monterey County Unified School District
Moss Landing, California

Report on State Compliance

We have audited North Monterey County Unified School District's compliance with the types of compliance requirements as identified in the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the North Monterey County Unified School District's State government programs as noted below for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the North Monterey County Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about North Monterey County Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of North Monterey County Unified School District's compliance with those requirements.

Unmodified Opinion

In our opinion, North Monterey County Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2017.

In connection with the audit referred to above, we selected and tested transactions and records to determine the North Monterey County Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No (see below)
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No (see below)
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No (see below)
Immunizations	Yes
CHARTER SCHOOLS	
Attendance	No (see below)
Mode of Instruction	No (see below)
Non Classroom-Based Instruction/Independent Study for Charter Schools	No (see below)
Determination of Funding for Non Classroom-Based Instruction	No (see below)
Annual Instruction Minutes Classroom-Based	No (see below)
Charter School Facility Grant Program	No (see below)

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform procedures related to Middle or Early College High Schools.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

Additionally, the District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

Varrinck, Trine, Day + Co. LLP

Fresno, California
December 11, 2017

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>
Identification of major Federal programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

There were no audit findings reported in the prior year's schedule of financial statement findings.

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Certified Public Accountants

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Governing Board
North Monterey County Unified School District
Moss Landing, California

In planning and performing our audit of the financial statements of North Monterey County Unified School District for the year ended June 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 11, 2017, on the government-wide financial statements of the District.

NORTH MONTEREY COUNTY HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

During our audit of the cash receipts system, we discovered that teachers/advisors are not consistently using sub-receipt books or a class roster (there is no supporting documentation) to document when funds are being turned in, how much, and by which students. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding the funds to the ASB bookkeeper in a timely manner. Since there are no sub-receipts attached to the monies turned in, the bookkeeper cannot reconcile the funds back to any documentation to determine the accuracy of the cash count sheet and the actual amount of funds turned in.

Recommendation

Prenumbered receipts should be issued for all cash collections by teachers/advisors which would include a specific description of the source of the funds. A copy of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in.

Inventory

Observation

During our audit, we discovered that spirit items for sale did not have an inventory available for review. When inventory is not tracked and reconciled to sales made, it is impossible to determine if all money was received for products sold.

Recommendation

Whenever items are purchased in bulk to be sold at a later date, a process must be in place to track items on hand and items sold, and reconcile that to the amount of money received. The software used by the bookkeeper does have an inventory module that can be used for this but the inventory information in the system is inaccurate and incomplete. The site should utilize this module correctly and update the information to accurately track the items that are available for sale to ensure all items and revenue are accounted for. Quarterly blind inventory counts should be performed and any discrepancies noted should be documented and sufficiently explained.

Revenue Potentials

Observation

During our audit, we discovered that revenue potential forms are on file, but with only preliminary "potential" income reported. The "recap" portion of the form that lists actual collections, compares actual income to the potential, and provides for discrepancies, is not being completed.

Recommendation

The site should implement procedures in which all revenue potential forms are completed in full. These forms supply an element of internal control without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. In addition, the form allows the bookkeeper to compare the advisors log of the deposits made for the fundraiser to the financial records of the appropriate account to ensure all entries were correctly posted. The revenue potential form also indicates the weak control areas in the fundraising procedures, including lost or stolen merchandise, problems with collecting all moneys due and so forth. Revenue earned in the student body fund is subject to greater risk of loss due to the nature of the fundraising events and decentralization of the cash collection procedures. The revenue potential form and reconciliation are vital internal control tools that are used to document revenues, expenditures, potential revenue and actual revenue for fundraisers.

Budgeting

Observation

During our audit, we found that the student body organization at the site does not incorporate a budget for all clubs into their control procedures as suggested in the *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcma.org, as prepared by the School Business Services Division of the California Department of Education.

Recommendation

The manual suggests preparing budgets to control and monitor the financial activities of the student body organizations. The ASB (including all clubs) should prepare a budget at the beginning of the school year. Some aspects that the Department of Education highlights are:

- Updates will be necessary to the budget as circumstances change; the budgeting procedures are an ongoing process.

- The preliminary budget should include the beginning balances of the organizations, estimated sources of income, and estimated expenditures.
- The surplus left over in the accounts at the end of the year must be kept at a minimum. The underlying focus of a student body is that the funds generated by a group of students should be spent during the same year for the benefit of those students.

The budget should be compared regularly to the actual financial activities of the organizations. One reason for this is to ensure that no organization enters into a deficit spending situation during the year.

NORTH MONTEREY COUNTY MIDDLE SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

During our audit of the cash receipts system, we discovered that teachers/advisors are not consistently using sub-receipt books or a class roster (there is no supporting documentation) to document when funds are being turned in, how much, and by which students. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding the funds to the ASB bookkeeper in a timely manner. Since there are no sub-receipts attached to the monies turned in, the bookkeeper cannot reconcile the funds back to any documentation to determine the accuracy of the cash count sheet and the actual amount of funds turned in.

Recommendation

Prenumbered receipts should be issued for all cash collections by teachers/advisors which would include a specific description of the source of the funds. A copy of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in.

Cash Disbursements

Observation

During our audit of cash disbursements procedures at the site, we found some purchase orders that were dated after the date on the invoice. Also, the purchase orders at the site require the signatures of a student representative, a board designee (site administrator) and a certificated advisor, however, most of the purchase orders we tested did not contain all three signature.

Recommendation

The site should take the necessary steps to ensure that expenditures are approved prior to the purchase of any item or service. Also, the purchase order form used to approve payments should include a third approval signature.

Budgeting

Observation

During our audit, we found that the student body organization at the site does not incorporate a budget for clubs into their control procedures as suggested in the *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org, as prepared by the School Business Services Division of the California Department of Education.

Recommendation

The manual suggests preparing budgets to control and monitor the financial activities of the student body organizations. The ASB (including all clubs) should prepare a budget at the beginning of the school year. Some aspects that the Department of Education highlights are:

- Updates will be necessary to the budget as circumstances change; the budgeting procedures are an ongoing process.
- The preliminary budget should include the beginning balances of the organizations, estimated sources of income, and estimated expenditures.
- The surplus left over in the accounts at the end of the year must be kept at a minimum. The underlying focus of a student body is that the funds generated by a group of students should be spent during the same year for the benefit of those students.
- The budget should be compared regularly to the actual financial activities of the organizations. One reason for this is to ensure that no organization enters into a deficit spending situation during the year.

General Ledger

Observation

During our audit, we found transfers of funds made between student body/club accounts which did not include any supporting documentation to describe the reason for or authorization for the transfers.

Recommendation

The site should implement procedures to include a transfer form that describes the reason for each transfer and should also include signature lines for approval by the student body and club advisor.

We will review the status of the current year comments during our next audit engagement.

Vaccinich, Trine, Day & Co. LLP

Fresno, California
December 11, 2017